

GAO

Report to the Chairman, Subcommittee  
on the District of Columbia, Committee  
on Government Reform and Oversight,  
House of Representatives

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July 1998

# DISTRICT OF COLUMBIA

## Status of the New Convention Center Project



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**United States  
General Accounting Office  
Washington, D.C. 20548**

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**Accounting and Information  
Management Division**

B-279554

July 15, 1998

The Honorable Thomas M. Davis, III  
Chairman, Subcommittee on the  
District of Columbia  
Committee on Government Reform  
and Oversight  
House of Representatives

Dear Mr. Chairman:

On May 18, 1998, you requested that we review the Washington Convention Center Authority's (WCCA) efforts to arrange for financing and constructing a new convention center in the District of Columbia. You specifically requested that we provide the status of WCCA's progress in the following two areas:

- The estimated cost of this project, including the Guaranteed Maximum Price (GMP) for constructing the new convention center, and the risk exposure for both the contractor and the District.
- The Financing Plan, including proposed changes to the revenue base, history of dedicated tax collections, projections for future revenues, and sufficiency to cover the GMP and other project costs.

You also asked us to provide background information on the site selection, including the WCCA's analysis of alternative sites, particularly the Northeast No. 1 site.

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## Results in Brief

The Washington Convention Center Authority is proceeding with efforts to build a new convention center at Mount Vernon Square at a cost WCCA officials estimate to be \$650 million. This estimate has not changed since we reported on this project in September 1997. However, our latest review of the project identified an additional \$58 million in project costs which—because WCCA expects them to be funded through federal grants or moved into future operating costs—are not included in WCCA's total project costs. These costs raise the project's cost estimate to \$708 million, excluding reserve requirements and financing costs of \$138 million.

Currently, the majority of the estimated project costs are covered in a \$500.6 million GMP for construction, which WCCA is in the process of negotiating with the construction manager, Clark/Smoot, with the goal of

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minimizing risks to WCCA and taxpayers. The GMP, which is a proposed amendment to the construction management contract, lays out 22 different cost components and sets limits on financial risks to the construction manager. Practically speaking, the GMP is only a guaranteed maximum price if the underlying assumptions on which the contractor bid the job do not change. Further, areas of risk—such as the removal of hazardous materials and remediation of any unknown subsurface conditions—are not included in the \$500.6 million price. An estimated \$207 million in other project-related activities will be or have been contracted for separately.

WCCA's current financing plan to cover predevelopment, construction, reserves and operation of the convention center calls for about \$846 million. Seventy-three percent of the funds needed to finance the project are expected to be derived from revenue bonds supported by dedicated taxes. Changes from the previous financing plan include increasing the term of the bonds as well as the dedicated taxes to allow WCCA to borrow more money for the project. WCCA received \$44 million in dedicated taxes in 1997, and WCCA has projected collections to increase at 1 percent a year over the next several years, a conservative stance relative to estimates by management consultants and the District, and to our evaluation of trends in tax collections and the national and local economic outlook. These and other factors will be looked at by WCCA's consultants, rating agencies, and bond insurers who will evaluate the financing package and determine its ability to cover the GMP and other project costs.

Obviously, risks associated with the financing package could affect the rating of the bonds and accordingly, the interest rate. Among the major unknowns at this juncture are a WCCA assumption that the Congress will approve \$35 million in federal funding to cover relocating utilities and upgrading the Mount Vernon Square Metro station. In addition, although WCCA plans to address an \$18 million reduction in its construction budget by negotiating arrangements with vendors to provide equipment and services, such as a heating and cooling plant, communications and food services equipment, to date there are no executed contracts to cover these arrangements.

The site selection process for the convention center has a long history, and numerous studies over the years have consistently identified Mount Vernon Square<sup>1</sup> as a preferred site. WCCA and its predecessors in the District government have repeatedly determined that Mount Vernon Square is a more viable location for a convention center than the other

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<sup>1</sup>Located in the blocks between 7th and 9th Streets, N.W., and N Street and Mount Vernon Place, N.W.

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sites, including the Northeast No. 1 site.<sup>2</sup> WCCA's most recent analysis of the Northeast site indicates that costs would be higher and would likely result in opening the convention center at a much later date than estimated for the Mount Vernon Square site.

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## Background

Plans for the new convention center were initiated in 1993 by the District's Hotel and Restaurant Associations, the Convention and Visitors Association, and the District of Columbia government. The Washington Convention Center Authority Act of 1994<sup>3</sup> (1994 Act) authorizes WCCA to construct, maintain, and operate the new convention center, as well as maintain and operate the existing convention center. The current design calls for a total of 2.1 million gross square feet, which includes approximately 730,000 square feet of prime exhibit space compared to the existing convention center which has a total of 800,000 gross square feet, including 381,000 gross square feet of prime exhibit space. The proposed new convention center is projected to rank sixth, based on the gross square feet of prime exhibit space, in the United States when completed, and the size of the proposed new convention center should remain highly marketable into the 21st century.

According to WCCA officials, the proposed new convention center is intended to allow the District to compete for larger conventions and trade shows. A 1993 feasibility study by Deloitte & Touche, commissioned by the local hospitality industry, stated that even though the District is viewed as a desirable location, the existing convention center is small compared to the convention centers of other cities, such as Atlanta, New York, Chicago, and Philadelphia.

The current master plan calls for constructing a new convention center at Mount Vernon Square, the legislatively<sup>4</sup> preferred site, located at Ninth Street and Mount Vernon Place, Northwest. In the 1993 feasibility study, eight potential sites were identified and evaluated against certain criteria such as physical and location characteristics, historic preservation, parking, and cost, including land acquisition and construction. As a result of this analysis, the Mount Vernon Square site was determined to be the preferred site due to its close proximity to the District's downtown

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<sup>2</sup>An area bordered by K Street, 1st Street, N.E., New York Avenue, Florida Avenue, and the railroad tracks.

<sup>3</sup>WCCA was created by the Washington Convention Center Authority Act of 1994, D.C. Law 10-188, September 28, 1994, 41 DC 5333, 6823, D.C. Code Ann. secs. 9-801 through 9-819.

<sup>4</sup>Sec. 101(12) of the 1994 Act, D.C. Code Ann. sec 9-801(12) (1981).

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businesses and because the District owns the majority of the land, thus minimizing the cost of land acquisition.

On September 25, 1997, WCCA obtained site approval and preliminary building design approval from the National Capital Planning Commission (NCPC). NCPC approved Mount Vernon Square as the site for the new convention center, which is about two blocks north of the current center. However, NCPC did not grant final approval of the building design but instead made several recommendations to improve the aesthetics of the building. WCCA anticipates that final design approval will be obtained from NCPC by early September 1998.

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## Objectives, Scope, and Methodology

To determine the new convention center project's estimated costs, proposed financing arrangements, and site selection process, we held discussions with and obtained information from various D.C. Council members and officials of the District government, WCCA and its consultants and advisors, NCPC, U.S. General Services Administration, the Washington Metropolitan Area Transit Authority (WMATA), the Committee of 100,<sup>5</sup> the Hotel Association of Washington, D.C., the Washington D.C. Convention and Visitors Association, the Restaurant Association of Metropolitan Washington, Moody's Investors Service, Standards and Poor's, and Coopers & Lybrand LLP.<sup>6</sup>

We compared the cost estimates for the project as of June 19, 1998, with the estimates in our September 1997 report to the Subcommittee.<sup>7</sup> We reviewed budget documents and held discussions with WCCA officials to obtain reasons for variations from the previous estimates. We also identified project cost components not included in the GMP and who would be responsible for those costs. As you requested, we asked the General Services Administration to review the proposed GMP amendment to the construction management services agreement<sup>8</sup> for the convention center project.

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<sup>5</sup>The Committee of 100 is a citizens planning and advocacy group, which was founded in 1923 in Washington, D.C.

<sup>6</sup>Coopers & Lybrand LLP was hired by Mesirow Financial Holdings, Inc.—the primary contractor—to perform management consultant services for the Washington Convention Center Authority. As a result of a merger, Coopers & Lybrand LLP is now part of PricewaterhouseCoopers.

<sup>7</sup>District of Columbia: Status of the Proposed New Convention Center Project ([GAO/AIMD-97-148](#), September 25, 1997).

<sup>8</sup>Construction Management Services Agreement for the Washington Convention Center Project by and between the Washington Convention Center Authority and Clark/Smoot, A Joint Venture, March 16, 1998.

We reviewed financial records and current balances to determine the amount of dedicated taxes reported as collected and transferred to WCCA. We reviewed the legislation for the proposed new tax structure for the convention center and obtained forecasts from the District government of future collections under the proposed new tax structure. We interviewed officials of WCCA, the District government, and the lockbox trustee vendor regarding operation of the lockbox since its inception. We obtained information on WCCA's financing plan for the new convention center project, and we reviewed the assumptions to determine whether they are reasonable. To evaluate the reasonableness of the dedicated tax revenue forecast, we reviewed the District's and Coopers & Lybrand's methodology and assumptions for the dedicated taxes.

In addition, we reviewed the auditor's<sup>9</sup> workpapers of the reported taxes collected and deposited for the convention center project to determine whether the District government properly calculated and transferred dedicated taxes to WCCA.

To determine how the site selection process was conducted, we reviewed the environmental impact study that was prepared for NCPC approval by a consultant hired by WCCA. We reviewed historical information on studies performed on alternative site consideration by the District and independent consultants and WCCA's comparative analysis of costs to construct the new convention center at the Mount Vernon Square site and the alternative Northeast No. 1 site.

We conducted our review from May through mid-July 1998 in accordance with generally accepted government auditing standards and considered the results of previous work.<sup>10</sup> We requested comments on a draft of this report from WCCA and the District of Columbia Government.

## Estimated Project Costs Have Increased

Since we last reported to this Subcommittee, the estimated costs for building the new convention center have increased. Table 1 compares current cost estimates with the estimates included in our September 1997 report. Project costs increased \$58 million, from \$650 million to \$708 million, and nonconstruction reserves have increased the

<sup>9</sup>KPMG Peat Marwick LLP audited WCCA's financial statements for fiscal year 1997.

<sup>10</sup>Convention Centers' Economic Benefits (GAO/GGD/AIMD/OCE-98-71R, February 27, 1998), District of Columbia: Status of the Proposed New Convention Center Project (GAO/AIMD-97-148, September 25, 1997), and District of Columbia: Status of the New Convention Center Project (GAO/AIMD-97-17, December 20, 1996).

financing-related costs by about \$51 million, from \$87 million to \$138 million for a current total funding requirement of \$846 million. As of May 31, 1998, WCCA had spent about \$27 million, primarily for contractual services (\$22 million), such as for the program manager and design fees, acquiring the additional land at the Mount Vernon site (\$2 million), and administrative expenses (\$2 million).

**Table 1: Total Estimated Costs for the New Convention Center**

(Dollars in thousands)			
Project component	Estimate as of 05/31/97 <sup>a</sup>	Estimate as of 06/19/98	Increase (decrease)
<b>Building and site/GMP</b>	\$417,500	\$500,600 <sup>b</sup>	\$83,100
<b>Other costs:</b>			
Total predevelopment costs <sup>c, f</sup>	39,912	79,424	39,512
Fixtures/furnishings/equipment	40,000	22,305	(17,695)
Soil remediation and hazardous materials removal	11,000	5,000 <sup>d</sup>	(6,000)
Section 106 mitigation costs <sup>e</sup>	7,600	12,671	5,071
Metro station upgrade	22,300	0	(22,300)
Other construction costs	35,814	0 <sup>f</sup>	(35,814) <sup>f</sup>
Project contingency	75,874	30,000 <sup>g</sup>	(45,874)
<b>Subtotal WCCA project budget</b>	<b>\$650,000</b>	<b>\$650,000</b>	<b>\$0</b>
<b>Additions to WCCA project budget:</b>			
Vendor provided equipment		17,695	17,695
Portion of utilities relocation not included in building and site <sup>h</sup>		10,000 <sup>h</sup>	10,000
Metro station upgrade		25,000	25,000
Project administrative costs		5,000 <sup>i</sup>	5,000
<b>Total additions to WCCA budget</b>		<b>\$57,695</b>	<b>\$57,695</b>
<b>Estimated project costs</b>	<b>\$650,000</b>	<b>\$707,695</b>	<b>\$57,695</b>
<b>Financing related costs:</b>			
Bond issuance	12,200	11,827	(373)
Reserve funds	75,100	126,399 <sup>j</sup>	51,299
<b>Total financing related costs</b>	<b>\$87,300</b>	<b>\$138,226</b>	<b>\$50,926</b>
<b>Total estimated project costs</b>	<b>\$737,300</b>	<b>\$845,921</b>	<b>\$108,621</b>

(Table notes on next page)



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<sup>a</sup>GAO report, District of Columbia: Status of the Proposed New Convention Center Project (GAO/AIMD-97-148, September 25, 1997).

<sup>b</sup>This amount is represented in the GMP proposal submitted by the construction manager, Clark/Smoot, Joint Venture, May 22, 1998.

<sup>c</sup>The 1997 amount includes \$5.4 million for land acquisition, and the 1998 amount includes \$4.7 million. In 1997, the District owned 87 percent of the land at the site. The market value of the land owned by the District, according to WCCA, is about \$74 million, which is not included in the project costs.

<sup>d</sup>WCCA did not identify soil remediation and hazardous materials removal as a separate cost component in its May 22, 1998, budget. In that budget, costs incurred for this purpose were to be paid from the project contingency.

<sup>e</sup>Section 106 of the National Historic Preservation Act mitigation requirements were established in a September 12, 1997, memorandum of agreement among the National Capital Planning Commission, the D.C. State Historic Preservation Officer, the Advisory Council on Historic Preservation, WCCA, the Mayor, and the D.C. Council. Mitigation requirements in the 1998 estimate include: art program, marshaling yard program, historic preservation survey, retail study, landscaping adjacent streets, restoration of Carnegie Library, future truck access study, transportation improvements, and community development. The art program, truck access study, transportation improvements, and community development were not included in the 1997 estimate.

<sup>f</sup>In the 1998 estimate, the category, "other construction costs," has been shifted to predevelopment costs.

<sup>g</sup>In addition to this contingency, the GMP contains a \$10 million construction contingency for use by the construction manager.

<sup>h</sup>The 1997 building and site estimate reflects the total estimated cost of utilities relocation, including this \$10 million.

<sup>i</sup>WCCA has not shown administrative costs in its project budget. It had incurred about \$2 million in administrative costs as of May 31, 1998, and estimates that an additional \$3 million may be incurred through project completion.

<sup>j</sup>Reserves include: Debt Service Reserve Funds (\$44.4 million), Operations and Marketing Reserve Fund (\$50 million), Renewal and Replacement Fund (\$22 million), and Revenue Stabilization Account (\$10 million). This includes an additional \$27.7 million for Debt Service Reserve, \$3.8 million for Operating and Marketing Reserve, \$9.8 million for Renewal and Replacement Fund, and \$10 million for Revenue Stabilization Account than had been indicated in our September 1997 report.

Source: WCCA.

**While WCCA has maintained a \$650 million budget, a number of changes have been made among the budget components, with some components increasing and some decreasing. A few project components have been taken out of the budget. The following changes have been made within the \$650 million budget:**

- **Building and site estimated costs have increased by \$83.1 million based on a proposed GMP amendment.**

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- Predevelopment costs increased by \$39.5 million largely as a result of shifting “Other Construction Costs,” estimated to cost \$35.8 million, to the predevelopment cost category.
  - Fixtures/furnishings/equipment decreased by \$17.7 million in anticipation of negotiating arrangements with vendors to provide such equipment.
  - Soil remediation and hazardous materials removal costs decreased by \$6 million as a result of refined estimates.
  - Section 106 mitigation cost increases of \$5 million reflect some additional requirements not included in previous estimates.
  - The Metro station upgrade, previously estimated to cost \$22.3 million, has been taken out of the budget in anticipation of federal funding.
  - The project contingency decreased by \$45.9 million. Considering the \$10 million contingency in the GMP, the decrease is \$35.9 million.

The following estimated project costs, when added to WCCA’s \$650 million budget, result in total estimated project costs of \$708 million:

- Portion of utilities relocation costs that are not included in the building and site costs for which WCCA anticipates \$10 million of federal funding.
- Metro station upgrade for which WCCA anticipates \$25 million of federal funding.
- Anticipated vendor provided equipment of about \$17.7 million.
- Project administrative costs of \$5 million, which have not been shown in the budget.

As part of the prospective financing arrangements, some of the reserves have been increased and others established for a strengthened financial arrangement for an overall increase of \$51 million.

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## **Guaranteed Maximum Price Is Largest Cost Component**

Making up the largest portion of the 1998 estimated project costs are the costs associated with the GMP (building and site). The \$500.6 million GMP is 71 percent of the \$708 million estimated project cost. Under the terms of the construction management services agreement between WCCA and the construction manager, the construction manager submitted a GMP proposal to WCCA.<sup>11</sup> The proposal provides the basis for WCCA and the construction manager to negotiate the final price. Once the price and its basis (the terms, conditions, assumptions, and related drawings and plans) are approved by WCCA, these will be set forth in the GMP amendment to the agreement. To become final, the amendment must be approved by the D.C.

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<sup>11</sup>The construction manager submitted a GMP proposal on May 22, 1998, totaling \$500.6 million for building and site. The proposal is valid until August 22, 1998.

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**Financial Responsibility and Management Assistance Authority  
(Authority).**

Under the GMP proposal, the contractor is to perform all necessary work to construct the project so that it is complete and a fully functioning, first-class convention center. The construction management services agreement and the GMP amendment will allocate the costs for the project between WCCA and the construction manager. Any increases in the cost of items allocated to the construction manager will be the responsibility of the construction manager. Any increases in the costs of items allocated to WCCA (or an increase in cost items allocated to the construction manager resulting from a change order issued by WCCA) are the responsibility of WCCA. The contract and proposed amendment also provide an incentive for the construction manager to complete the project for less than the GMP by giving the construction manager 25 percent of cost savings up to \$9.5 million. The percentage is adjusted up or down depending on the construction manager's success in meeting the established goals for using local, small, or disadvantaged business enterprises. There is a penalty of \$50,000 a day for failure to meet the completion date.

The GMP proposal (building and site costs in table 1) is \$83.1 million greater, or about 20 percent more than the 1997 estimate of \$417.5 million. A WCCA official attributed the higher cost to a 175,000 increase in square footage to accommodate support and public space, retail, and parking areas, design changes, inflation, and the \$10 million construction contingency.

Table 2 shows the components of the GMP. Site work, concrete, and steel account for \$233 million or 47 percent of the GMP. Mechanical and fire protection, electrical work and security, and design allowances<sup>12</sup> account for \$117 million or 23 percent.

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<sup>12</sup>The design allowance covers a number of relatively small items, such as light fixtures, site and street lighting, signage, various finishes, etc.

**Table 2: Proposed Components of the GMP**

(Dollars in thousands)	
<b>Component</b>	<b>Amount</b>
General conditions/requirements	\$26,500
Utilities relocation	6,500
Site work	50,500
Concrete	50,500
Masonry	16,500
Steel/metals	132,000
Carpentry	1,000
Moisture protection	17,000
Fenestrations	17,000
Finishes	29,000
Specialties	4,000
Loading dock equipment	79
Window treatment	400
Conveyances	8,800
Mechanical and fire protection	45,000
Electrical work and security	36,700
Design allowances	35,113
Construction contingency	10,000
Insurance	808
Performance and payment bonds	3,400
Preconstruction fee	300
Construction management fee	9,500
<b>Total GMP</b>	<b>\$500,600</b>

Source: WCCA.

### Possible Building and Site Costs in Excess of the GMP

The GMP proposal specifies that WCCA is responsible for the following costs:

- WCCA is responsible for costs associated with soil remediation and hazardous materials removal. WCCA officials told us that it could assume the liability for soil remediation and hazardous materials removal at less cost than including it in the GMP because the construction manager would require a significant contingency amount for this line item. Since the time of our last review, WCCA has had testing performed at the Mount Vernon Square site. Based on the results to date, WCCA officials expressed confidence that soil remediation and hazardous materials removal costs

will not significantly exceed their estimates. WCCA has decreased the 1997 estimate of such costs from \$11 million to \$5 million. They have informed us that the \$11 million estimate was an attempt to make an adequate estimate before the site tests were completed. If costs exceed the budgeted \$5 million, WCCA plans to offset this increase with funds from the project contingency.

- WCCA is responsible for the additional costs incurred if the construction manager encounters subsurface or soil conditions that materially differ from those indicated in information provided by WCCA.
- The GMP proposal is based on certain lump sum allowances and quantity and unit price assumptions. WCCA is responsible for the additional costs that may be incurred if actual costs exceed the allowances and assumptions specified in the proposal. For example, the proposal contains 24 design allowances, including light fixtures, street lighting, signage, and various finishes, totaling \$35.1 million. The GMP amount will be adjusted upward if actual costs exceed the allowances.
- WCCA is responsible for additional costs resulting from any change orders to the contract.

## Risks External to the GMP

In addition to the potential for incurring building and site costs in excess of the GMP amount, WCCA is responsible for the remaining project costs that are not covered by the GMP, which are noted in table 1. The \$207 million estimated costs for these components decreased \$25 million from the 1997 estimates, offsetting some of the increased 1998 estimate of the building and site costs.

- WCCA has omitted from its project budget estimated costs of \$25 million for the Mount Vernon Square-UDC Metro station upgrade and \$10 million for the utilities relocation work in anticipation of these costs being paid from federal grants. In the case of the Metro upgrade, the President's fiscal year 1999 budget to the Congress includes \$25 million to be paid directly to the Washington Metropolitan Area Transit Authority, which would be responsible for the work. The utility relocation work would be financed with Community Development Block Grants (CDBG) funds made available to the District by the U.S. Department of Housing and Urban Development (HUD).<sup>13</sup> Until these initiatives are approved, there is a financial risk to the project budget.

<sup>13</sup>WCCA has provided us with a copy of a draft grant agreement between WCCA and the District's Department of Housing and Community Development. According to WCCA's Managing Director of Development, this is not a new CDBG federal allocation but is inclusive in the District of Columbia HUD/CDBG annual allocation.

- WCCA has reduced the project costs for the fixtures, furnishings, and equipment component by about \$17.7 million in anticipation of negotiating arrangements with vendors to provide certain equipment and services, such as a heating and cooling plant, communications, and food services equipment. This arrangement technically takes the costs out of the budget without reducing project costs. According to WCCA officials, this arrangement has been done at other convention centers. WCCA is at risk for these costs until contracts have been executed with vendors.

## Contingency to Cover Project Risks

The project budget includes two contingency amounts: (1) a \$10 million construction contingency contained in the GMP earmarked for cost increases that are the responsibility of the construction manager and (2) a \$30 million project contingency earmarked for cost increases both inside and outside the GMP for which WCCA is responsible.<sup>14</sup> The \$40 million contingency is a decrease of \$35.9 million from the \$75.9 million in the 1997 budget although it now covers a larger project cost. According to WCCA's Managing Director of Development, given that WCCA has successfully negotiated a GMP with the contract manager and has completed many preconstruction activities, an 8 percent (\$40 million)<sup>15</sup> contingency is considered reasonable.

## WCCA's Proposed Financing Plan

WCCA's current financing plan for the project calls for total funds of about \$846 million. About \$616 million, or 73 percent, is expected to be derived from revenue bonds supported by dedicated taxes. In addition, WCCA anticipates using \$110 million from dedicated tax revenue collections through July 1, 1998; about \$62.7 million from interest earned on the bond proceeds; \$35 million from the federal government to fund the Metro upgrade and utility relocation; \$18 million from vendors to fund furniture, fixtures and equipment; and \$5 million from the operating subsidy to cover administrative costs. Assuming the estimated project costs are substantially accurate, the financing plan projections, including the projected growth in dedicated tax revenues, seem reasonable; however, until the federal funding is approved in an adopted 1999 budget, and until WCCA signs contracts with vendors, there is a risk to the financing plan of about \$53 million. WCCA's CFO stated that any additional funding needs would require a reevaluation of the budget and financing plan.

<sup>14</sup>For example, approved change orders, soil remediation, and hazardous materials removal.

<sup>15</sup>WCCA computes the 8 percent by using the \$10 million contingency in the GMP plus the \$30 million project contingency to the GMP amount of \$500.6 million. If WCCA were to apply the \$40 million against the total project cost of \$708 million, the contingency amount would be about 6 percent.

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assumptions. If WCCA were to seek additional funding from the District, it would require approval by the District's City Council, the Mayor, and the Authority.

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## New Financing Plan Supports Increased Debt

Table 3 shows the May 1997<sup>16</sup> and the current (May 1998) financing plans. Since May 1997, WCCA has proposed several changes to its financing plan. As the table indicates, the current financing plan assumes a lower interest rate, an increase<sup>17</sup> in the annual dedicated tax revenues to support the bond financing, and an increase in the term of the bonds from 30 to 34 years. These changes would allow WCCA to borrow more money to finance the project. In addition, since the amount of cash available from dedicated taxes and bond proceeds has increased, the amount estimated for construction fund earnings has also increased from the original plan. Finally, the current financing plan includes funding for financing costs and reserve requirements.

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<sup>16</sup>This financing plan was developed in May 1997 and was discussed in our September 1997 report, [GAO/AIMD-97-148](#), District of Columbia: Status of the Proposed New Convention Center Project.

<sup>17</sup>Based on the Washington Convention Center Authority Financing Amendment Act of 1998, WCCA will now use the existing convention center's operating subsidy (\$5.6 million) and the subsidy (\$5.2 million) to the Washington Convention and Visitors Association, the Mayor's Committee to Promote Washington, and the D.C. Chamber of Commerce to support the bond financing.

**Table 3: Comparison of Financing Plans for Proposed New Convention Center**

(Dollars in millions)		
<b>Funding sources</b>	<b>Financing plan as of 5/97</b>	<b>Financing plan as of 5/98<sup>a</sup></b>
Senior lien bonds	\$343	\$487.4
Junior/senior subordinate lien	\$80	\$128.2
<b>Subtotal</b>	<b>\$423</b>	<b>\$615.6</b>
Cash for reserves	\$30	\$72.8
Construction fund earnings	\$51	\$62.7
Cash for preconstruction activities	\$40	\$37.2 <sup>b</sup>
Federal funds	0	\$35
Vendor participation	0	\$18
Funds for administrative costs	0	\$5 <sup>c</sup>
<b>Subtotal</b>	<b>\$544</b>	<b>\$846</b>
<b>Total funding required</b>	<b>\$650<sup>d</sup></b>	<b>\$846</b>
Estimated shortfall	(\$106)	0
Interest rate	6.3% <sup>e</sup>	5.6% <sup>f</sup>
Term of debt	30 <sup>g</sup>	34
Dedicated annual revenues to back bonds	\$27.5 <sup>h</sup>	\$44
Revenue growth assumption	1%	1%
Avg. annual debt service	\$26.0	\$42.6

(Table notes on next page)



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<sup>a</sup>Apart from this financing plan, WCCA's underwriter and financial adviser developed several other financing structures: (1) final maturity of 30 years with a 1.50 times coverage on the senior lien bonds, (2) final maturity of 34 years with 1.35 times coverage on the senior lien bonds, and (3) final maturity of 30 years with 1.35 times coverage on the senior lien bonds. However, this plan is WCCA's preferred because it provides a better level of coverage (1.50 on the senior lien bonds), a longer maturity (34 years), and more funding for the project.

<sup>b</sup>This money reflects dedicated tax collections available of which about \$27 million had already been spent on predevelopment activities as of May 31, 1998.

<sup>c</sup>WCCA reflects funds for administrative costs (salaries and wages) of the proposed new convention center as part of the operating subsidy it receives through dedicated tax collections for the existing center.

<sup>d</sup>The \$650 million did not include WCCA's preliminary estimate of \$87.3 million needed for financing costs and reserve requirements.

<sup>e</sup>The interest rate was based on prevailing interest rates as of May 21, 1997, and a projected bond issuance date of October 1997.

<sup>f</sup>The interest rate was based on prevailing interest rates as of May 6, 1998, and a projected bond issuance date of July 1, 1998.

<sup>g</sup>Subsequent to our September 1997 report, WCCA had proposed a financing strategy that would lengthen the maturity of the bonds from 30 to 40 years. See our report, Convention Centers' Economic Benefits (GAO/GGD/AIMD/OCE-98-71R, February 27, 1998).

<sup>h</sup>This amount did not include the operating subsidy and the 60 percent Hotel Occupancy Tax contribution to the marketing entities, which are now being assumed in the May 1998 Plan.

Source: WCCA.

Since WCCA is exposed to rising interest rates until the bond financing is finalized, WCCA considered a scenario with a higher bond interest rate of 5.85 percent, or 25 basis points higher than its preferred financing plan interest rate assumption of 5.6 percent.<sup>18</sup> Based on this scenario, the increased interest rate does not materially change the financing plan.

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## Framework for Evaluating Dedicated Tax Financing

Since the majority (73 percent) of the funds to finance the project are expected to come from bonds supported by dedicated taxes, our review of the financing plan considers some of the key factors rating agencies use to rate dedicated tax financing for convention center projects: (1) breadth of the tax base, (2) historical performance of the revenue stream, (3) the underlying strength of the economy, and (4) the absence of legislative risk.<sup>19</sup>

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<sup>18</sup>As of July 10, 1998, the 30-year Treasury yield was 5.62 percent versus 6.56 percent at the same time last year.

<sup>19</sup>On Entertainment and Tourism, "Moody's Approach to Rating Stadium, Arena, and Convention Center Bonds," February 13, 1995. Standard & Poor's Public Finance Criteria 1998, "Special Tax and Recreation Facility Bonds."

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Breadth of the tax base. According to the rating agencies, taxes levied on a broader range of goods, services, and population are stronger and less volatile than those derived from narrower bases. The current tax structure that was established in fiscal year 1995 to provide financing for predevelopment activities for the proposed new center is comprised of the hotel occupancy tax, hotel sales tax, corporate franchise, unincorporated franchise, restaurant meals, alcoholic beverages, and automobile rental taxes.<sup>20, 21</sup>

On June 16, 1998, the D.C. City Council approved a change to the dedicated tax structure that will be available effective October 1, 1998, to guarantee the repayment of revenue bonds issued to finance the construction of the new center.<sup>22</sup> After the Council changes become effective, WCCA will essentially rely on taxes levied on hospitality industries to finance the construction costs of the project. The District's hotel sales tax rate was increased from 13 percent to 14.5 percent, of which WCCA will receive 4.45 percent. WCCA's existing rate is 2.5 percent. WCCA will continue to receive 1 percent of the 10 percent tax rate on restaurant sales, alcoholic beverages, and automobile rentals. WCCA will no longer receive a portion of the corporate franchise and the unincorporated business taxes. The hotel occupancy tax will be repealed. The Council change requires the Mayor to impose a surtax on the hotel sales tax if additional funds are required to cover debt service and operations costs.<sup>23</sup>

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<sup>20</sup>Based on the Washington Convention Center Authority Act of 1994, the existing dedicated taxes to WCCA include the following: 2.5 percent of the 13 percent sales and use tax on hotel room charges; 1.0 percent of the 10 percent sales and use tax on restaurant meals, alcoholic beverages consumed on premises, and automobile rental charges; \$1.50 hotel occupancy tax per hotel room per overnight stay. (WCCA receives 40 percent of the \$1.50 per hotel room per overnight rate and the D.C. Committee to Promote Washington and the Washington Convention and Visitors Association receives 60 percent); 2.5 percent surtax on the 9.5 percent corporate franchise tax; and 2.5 percent surtax on the 9.5 percent unincorporated business franchise tax.

<sup>21</sup>According to the District, the automobile rental tax comprised a small portion since most of the car rental companies are located in Virginia and Maryland, near the airports.

<sup>22</sup>The Washington Convention Center Authority Financing Amendment Act of 1998 was passed by the Council and was signed by the Mayor. It was approved by the Authority on July 13, 1998, and will now be sent to the Congress where it will be subject to a 30-day congressional review period before becoming law.

<sup>23</sup>In addition, the 1998 Act repealed the direct dedication of tax revenue to the marketing entities and established the Washington Convention Center Marketing Fund. This fund would be held by the trustee for the Authority's bonds and shall receive monthly deposits equal to 17.4 percent of WCCA's share of the hotel sales and use tax collected. This provision replaces the designation of the 60 percent of the hotel occupancy tax.

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Under the current tax structure, about 79 percent of the revenue WCCA has received comes from the hotel sales, and restaurant and automobile rental taxes. As a result of the change to the dedicated tax structure, 71 percent of WCCA's total dedicated tax revenues are expected to come from the hotel sales tax and the remaining 29 percent from the restaurant sales and automobile rental taxes. Convention centers in Dallas, Baltimore, and New Orleans have been funded primarily by a hotel sales tax.<sup>24</sup>

Historical performance of the revenue stream. The rating agencies analysis also includes a review of multiyear historical data for collections of the dedicated revenues. According to the rating agencies, 5 years of historical data are usually a good indicator of how the tax is likely to perform in the future. Table 4 shows the collection history of the taxes currently dedicated to the project.

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<sup>24</sup>Convention Centers' Economic Benefits ([GAO/GGD/AIMD/OCE-98-71R](#), February 27, 1998).

**Table 4: Current Tax Structure Including Dedicated Tax Cash Collections**

Dollars in thousands

	Fiscal year						Avg. annual growth rate 93-97 <sup>b</sup>
Tax	1993	1994	1995	1996	1997	1998	
Restaurant and automobile rental							
Total	\$109,826	\$110,646	\$120,970	\$126,300	\$134,520	\$137,000	
WCCA's portion			\$12,097	\$12,630	\$13,452	\$13,700	
Percent of change		0.7%	9.3%	4.4%	6.5%	1.8%	5.2%
Hotel sales							
Total	\$66,037	\$65,629	\$74,100	\$79,451	\$92,160	\$98,300	
WCCA's portion			\$14,260	\$15,279	\$17,723	\$18,900	
Percent of change		-0.6%	12.9%	7.2%	16.0%	6.7%	8.7%
Hotel occupancy							
Total	\$8,991	\$9,245	\$9,045	\$8,861	\$8,917	\$9,000	
WCCA's portion (40%) <sup>c</sup>			\$3,673	\$3,560	\$3,481	\$3,600	
Percent of change		2.8%	-2.2%	-2.0%	0.6%	0.9%	-0.2%
Corporate franchise							
Total	\$86,885	\$112,402	\$122,868	\$127,755	\$144,680	\$155,400	
WCCA's portion			\$2,959	\$3,052	\$3,531	\$3,700	
Percent of change		29.4%	9.3%	4.0%	13.2%	7.4%	13.6%
Unincorp. franchise							
Total	\$31,795	\$34,731	\$35,570	\$34,700	\$42,147	\$43,040	
WCCA's portion			\$853	\$832	\$1,034	\$1,040	
Percent of change		9.2%	2.4%	-2.4%	21.5%	2.1%	7.3%
Total taxes	\$303,534	\$332,653	\$362,553	\$377,067	\$423,388	\$442,740	
Total WCCA tax receipts			\$33,842	\$35,353	\$39,221	\$40,940	
Percent of change		9.6%	9.0%	4.0%	12.3%	4.8%	8.7%

<sup>a</sup>Fiscal Year 1998 projections were provided by the District's Tax and Economic Policy Administration.

<sup>b</sup>The percentage change reflects total taxes collected by the District, not WCCA's portion.

<sup>c</sup>The other 60 percent goes to the marketing entities.

Source: Unaudited tax cash collection data provided by the District's Office of Tax and Revenue.

Table 4 shows that during fiscal years 1993-1997, total tax collections grew by an average annual rate of about 8.7 percent. The hotel sales, restaurant, and automobile rental taxes' combined annual rate of growth averaged 6.6

percent over the same period.<sup>25</sup> These taxes experienced rate increases in fiscal year 1995. According to the District, the increase in collections also reflects improvement in the District's economy, including the increase in the number of tourists to the District. WCCA's tax receipt data for fiscal year 1998 shows receipts being about \$4.6 million higher through May 1998 than for the same period of time last year.<sup>26</sup>

Underlying economic strength. Since economic conditions are an important factor for the future stream of dedicated taxes, rating agencies evaluate the underlying strength of those parts of the economy most relevant to the dedicated taxes. For example, if the dedicated tax is mainly generated by local residents, such as the restaurant tax, the evaluation would focus on the strength of the local economy. If the tax is mainly generated by visitors, such as the hotel sales tax, the evaluation would include the economies of the areas from which visitors come. In cities like Washington, D.C., which attracts visitors from all over the country and the international community, the future stream of hotel sales tax is likely to be influenced by the strength of the national economy.

WCCA's financing plan assumes 1 percent growth in dedicated tax revenues under the new dedicated tax structure beginning in fiscal year 1999. According to WCCA's chief financial officer, the 1 percent growth assumption is conservative when compared to historical trends in collections. To evaluate the reasonableness of WCCA's tax projection, we reviewed the historical trends, as discussed above, the underlying strength of the economy most relevant to the dedicated taxes and the District of Columbia government's and Coopers & Lybrand's methodologies and assumptions used in projecting the future stream of revenues.

The U.S. economy is projected to grow at a moderate rate over the next decade. For example, the Congressional Budget Office estimates the average annual growth in real gross domestic product (GDP) will be 2.2 percent during 1998-2008, and over the same period, the consumer price index (CPI) is projected to increase at an average rate of 2.7 percent.

<sup>25</sup>The District's Comprehensive Annual Financial Report provides data for the last three taxes shown on table 4, but does not provide the information separately for the hotel sales, restaurant, and automobile rental taxes because they are component parts of the general sales and use tax. According to the District, for the restaurant and hotel sales taxes, data subject to an audit process is available beginning only in fiscal year 1995, the year when the dedicated taxes were earmarked for the convention center project.

<sup>26</sup>In addition, the table reflects WCCA's total receipts for the past 3 fiscal years, which does not include \$5.2 million given annually to the Washington Convention and Visitors Association, the D.C. Committee to Promote Washington, and the D.C. Chamber of Commerce for marketing activities. WCCA's financing plan assumes that this \$5.2 million, combined with the \$39.2 million in fiscal year 1997, shown in table 4, will be used as the base year revenue to support the bond financing.

The WEFA Group, a macroeconomic forecasting firm, expects real GDP to grow at 2.3 percent per year during 1998-2007 and the CPI to be at 2.6 percent during this period.

The projections for the Washington, D.C., population and economy reflect improvements over the next 3 to 5 years. Standard & Poor's DRI<sup>27</sup> projects that the population during 1998-2007 will remain virtually unchanged. This contrasts with a decline of an average annual rate of over 2 percent per year during the previous 3 years. Standard & Poor's DRI projects that, during 1998-2007, the District's personal income<sup>28</sup> will increase at an inflation adjusted average annual rate of 0.9 percent. During 1995-1997, personal income annual average growth rate was close to zero.

**Figure 1: Dedicated Taxes: Projected Annual Percentage Change**

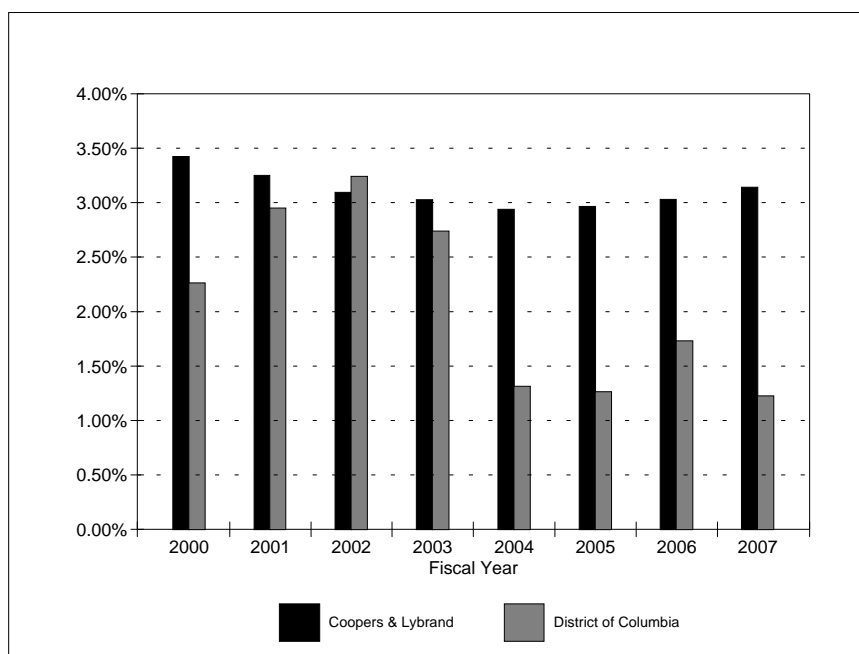


Figure 1 shows combined annual percentage change for the hotel, restaurant, alcoholic beverages, and automobile rental taxes based on the District's and Coopers & Lybrand's forecast under the new tax structure

<sup>27</sup>DRI is a commonly used source of economic forecasts.

<sup>28</sup>As defined by the U.S. Department of Commerce, personal income consists of wage and nonwage income received by city residents, with the wage component accounting for a little over half of the total.

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from fiscal year 1999 through fiscal year 2007. The District forecasts average annual growth in revenues for the hotel and restaurant taxes combined over fiscal years 1999 to 2007 to be about 2.1 percent, while Coopers' forecast reflects combined average annual growth of about 3.4 percent. These estimates are substantially less than the combined average annual growth rate of 6.6 percent in these same taxes between fiscal years 1993 and 1997.

To evaluate the reasonableness of Coopers' projected revenues from the hotel tax, we reviewed its key assumptions and its U.S. lodging industry forecast model. The model estimates future hotel room demand, hotel room starts, and hotel room rate inflation. Key predictors for these variables are real GDP, the inflation-adjusted average daily rate, and the lagged occupancy level, respectively. Based on the WEFA forecasts discussed above, the Coopers' report assumed that the U.S. economy will continue to grow at about 2.3 percent. It also assumed that the District's lodging market will not experience significant demand or supply shocks during this period. The Coopers' lodging industry forecast model for the District is driven by the U.S. forecast model.<sup>29</sup> Coopers estimates that hotel room demand between 1999-2001 in the District will increase at or slightly above the U.S. industry trend growth. Beyond the year 2001, hotel room demand growth is expected to decrease to levels at or slightly below those for the U.S. lodging industry as a whole. The growth in total hotel room revenue to the District during 1998-2007 is expected to average 4.7 percent annually.

Based on an analysis of historical data, Coopers determined that the number of District households and the District's gross income can predict restaurant taxable sales. They estimate that during 1999-2007, restaurant sales will increase at an annual rate of about 1.6 percent, lower than the projected rate of inflation. The estimate is based on the assumption that the District's gross income will grow slightly in nominal terms. Coopers assumed that the number of households will continue to decline but at a lower rate than the previous years.

Coopers' assumptions are generally consistent with the outlook provided by independent sources discussed above. Accordingly, the projected rate of growth in dedicated taxes appears to be reasonable.

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<sup>29</sup>Local hotel room demand is a function of real GDP. The local average daily rate is a function of the U.S. average daily rate. Local hotel room inventory is a function of the U.S. hotel room supply level.

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The District's Office of Tax and Revenue (OTR) projections are derived from a time-series forecasting model.<sup>30</sup> Using a standard time-series model, OTR estimates future hotel and restaurant tax revenues using monthly historical tax collection data. These estimates were then fine-tuned using projected inflation and personal income under the assumption that these variables will influence the future trend of tax revenues. Based on the DRI forecasts, OTR assumed an annual inflation of 2.4 percent and an annual growth in personal income of 2.5 percent during 1997-2002. OTR assumed no major changes in the District's economic circumstances and in the future success of collection practices. Overall, OTR's methodology and assumptions appear to be conservative as reflected in their estimated projected growth rates of the hotel and restaurant taxes discussed above.

Based on our analysis of trends in collections of hotel sales, restaurant and automobile rental taxes, the national/local economic outlook, the District's and Coopers & Lybrand's assumptions, WCCA's growth assumption of 1 percent to support the bond financing seems conservative. Assuming that the District's forecast of annual average growth of about 2 percent holds true, WCCA stands to gain an additional \$63 million for fiscal years 1999 through 2007, which could be used to retire the bonds earlier than their stated maturity dates.

Absence of legislative risk. According to the rating agencies, for dedicated tax-secured debt to be rated investment grade, the revenues must not be subject to annual appropriation and the authority to levy the tax must not be subject to revocation by the legislature within the life of the debt.

Section 212 of the Washington Convention Center Authority Act of 1994, as amended,<sup>31</sup> provides that the District pledges to the Authority that the District will not limit or alter rights vested in the Authority to fulfill agreements made with holders of the bonds, or in any way impair the rights and remedies of the holders of the bonds until the bonds, together with interest and all costs and expenses in connection with any action or proceedings by or on behalf of the holders of the bonds, are fully met and discharged. Also, Section 490 (f) of the Home Rule Act, as amended,<sup>32</sup>

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<sup>30</sup>In time-series models, future values of a variable are estimated solely based on the historical behavior of the variable.

<sup>31</sup>D.C. Code Ann. Sec. 9-813 (1981).

<sup>32</sup>D.C. Code Ann. Sec. 47-334.



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makes dedicated tax revenues pledged to secure revenue bonds generally available without requiring further appropriations.

While the financing plan does not reflect legislative risks associated with the dedicated taxes, WCCA assumes one-time federal funds of about \$35 million for Metro expansion and utility relocation at the Mount Vernon Square site. The President's fiscal year 1999 budget to the Congress includes \$25 million for WMATA to expand the Mount Vernon Square-UDC Metro station. The \$10 million anticipated for utility relocation work is expected to be financed with a Community Development Block Grant made available to the District by the U.S. Department of Housing and Urban Development. However, until the federal budget is adopted, it is uncertain whether federal funds will be available. Therefore, there is a legislative risk to the financing plan of about \$35 million. If these grants are not received, WCCA's \$30 million project contingency outside of the GMP would not be sufficient to cover these estimated costs.

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## Other Components of the Financing Plan

The other components of the financing plan include cash-on-hand from dedicated tax collections, construction fund earnings, and reserve requirements.

WCCA Cash-on-Hand. WCCA's financing plan includes \$110 million from dedicated tax collections. WCCA's financing plan was predicated on entering the bond market on July 1, 1998; therefore, WCCA expects that it would have already used \$37 million of dedicated tax collections on preconstruction activities and have about \$73 million<sup>33</sup> of the collection on hand to satisfy reserve requirements at that time. WCCA now anticipates entering the bond market in September 1998. Due primarily to the delay in entering the market and because tax revenue collections through May 1998 had been higher than anticipated, WCCA's available cash for use could be about \$15 million higher than the \$110 million assumed in the financing plan. Based on dedicated tax collections and expenditures as of May 31, 1998, if WCCA's projected expenditures are substantially accurate, by September 1, it would have spent an additional \$15 million—for a total of about \$52 million—on preconstruction activities and would have \$73.6 million cash-on-hand to satisfy the reserve requirements.

Construction Fund Earnings. Based on a preliminary construction draw schedule, the financing plan assumes that about \$62.7 million can be

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<sup>33</sup>Operating and Marketing (\$50 million), Renewal and Replacement (\$12.8 million), and Revenue Stabilization (\$10 million).

generated in interest earnings on bond proceeds of about \$550 million. The bond proceeds would be deposited in a construction fund. During the construction period, funds that are not drawn from the account would earn interest at a rate of 5 percent. The interest rate assumption appears reasonable when compared to the rate of earnings on WCCA's dedicated tax revenue investments over the past 3 years.<sup>34</sup> When analyzing this type of funding mechanism, the rating agencies' primary concerns are whether the construction estimate is reasonable and what source of funds would be used to address the shortfall should the earning assumption fall short. According to WCCA's underwriter, at the time of bond issuance, WCCA plans to obtain a fully flexible investment agreement,<sup>35</sup> which will include guaranteed investment earnings and conditions that stipulate that there would be no penalty should additional funds be required to satisfy project needs.

Reserve Requirements. The financing plan assumes that about 15 percent, or \$126 million of the \$846 million funds identified, will be used to establish the following reserves: debt service, operations and marketing, renewal and replacement, and rate/revenue stabilization.<sup>36</sup> Reserves are established to strengthen the bond transaction. We spoke with rating agencies' officials regarding the adequacy of WCCA's reserves. There appear to be no established guidelines regarding the level of funding for each reserve. The actual character and amount of each reserve is shaped by several factors: the quality of the dedicated tax revenues, anticipated ongoing needs of the facility, economic projections, availability of funds, and bond insurers and rating agency concerns. WCCA's underwriter states that the estimated reserve requirements are more than adequate and necessary to achieve the lowest possible cost of borrowing.

## Site Selection Process Has Long History

Discussion about building a larger convention center was underway at the time the existing convention center opened in 1983. The site at Mount Vernon Square was identified as a preferred site as early as 1986. Since that time, a number of studies have examined alternative sites in various parts of the city, with the Mount Vernon Square site repeatedly being selected as the most viable site, given its location in the downtown core,

<sup>34</sup>The dedicated tax revenues are being invested in discount notes such as Fannie Mae and Freddie Mac, which have been earning an average of 5.5 percent annually.

<sup>35</sup>Under the terms of an investment agreement, WCCA would enter into a contract with a third party, such as a bank, giving that party the right to invest these funds. In exchange for the future right to invest these funds, the bank will make periodic payments to WCCA.

<sup>36</sup>See table 1, footnote J for the estimated amount of each reserve.

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amidst the kind of amenities that make possible a thriving convention center, with its associated economic benefits.

Research results included in our February 1998 report<sup>37</sup> demonstrated that convention centers generally cannot earn enough direct revenues to cover all of their recurring operating costs or their construction costs. However, cities sponsor convention centers with the expectation for significant direct and indirect economic benefits to the area, from spending by out-of-town convention delegates, that will increase local tax revenues to offset operating losses and construction costs of convention centers. In addition, based on Coopers & Lybrand's Analysis for the Proposed Washington Convention Center, the proposed convention center is estimated to generate approximately \$1.1 billion of total output<sup>38</sup> in year 2002 within the metropolitan D.C. area, increasing to about \$1.4 billion in 2006.<sup>39</sup> Further, results indicated that the most important factor to a convention center's success in attracting a large number of out-of-town delegates who spend a significant amount of money is location in a desirable city and near hotels, restaurants, and shopping.

WCCA determined that Mount Vernon Square was the most advantageous site selected because it offered a variety of favorable attributes: proximity to existing hotels, restaurants, and museums, the presence of an existing Metrorail station, and entertainment venues and other tourist points of interest.

Section 215 of the Washington Convention Center Authority Act of 1994 (1994 Act),<sup>40</sup> states that Mount Vernon Square was where the new convention center "should be located." In the same section, it says that the Mayor "may evaluate" other sites and "should specifically evaluate 2 sites:" Northeast No. 1 and the site located at the Anacostia Metro.<sup>41</sup>

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<sup>37</sup>District of Columbia: Convention Center's Economic Benefits (GAO/GGD/AIMD/OCE-98-71R, February 27, 1998).

<sup>38</sup>Total output includes total direct, indirect, and induced spending. Of the \$1.1 billion, Coopers estimates that approximately \$618 million, or 55 percent, would occur in the District.

<sup>39</sup>Coopers' study is dated December 30, 1997. Based on recent information from WCCA's officials, the center is expected to be completed in March 2003.

<sup>40</sup>D.C. Code Ann. sec. 9-816 (1981) (1995 repl.). See also section 101(12) of the 1994 Act, D.C. Code Ann. sec. 9-801 (12) (1981) (1995 repl.).

<sup>41</sup>Located Southeast of Frederick Douglas Memorial (South Capitol Street) Bridge, north of Howard Road and the Anacostia Freeway, S.W.

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When the 1994 Act was passed, the latter two sites had already been evaluated (along with nine others) in a financial feasibility study conducted between 1991 and 1993 by Deloitte and Touche.<sup>42</sup> In 1996, Northeast No. 1 and the Anacostia Metro were again evaluated by WCCA along with 14 other sites when it prepared a study regarding the project. WCCA determined that both the Northeast site and the Anacostia Metro site did not compare favorably with Mount Vernon Square, largely because of their isolated locations, distance from hotels, and other amenities. When a final Environmental Impact Statement (EIS) was prepared for the National Capital Planning Commission in April 1997,<sup>43</sup> it rated the Mount Vernon Square site as more acceptable.

In June 1997 the federal Commission of Fine Arts gave its preliminary approval to a design for the convention center at Mount Vernon Square. Such approval is a requirement for public buildings sited in the District. In September 1997, the following additional approvals were granted.

- The federally appointed Advisory Council on Historic Preservation approved the preservation/neighborhood revitalization plan for the Mount Vernon Square site.
- A Memorandum of Agreement outlining specific historic preservation mitigation measures at Mount Vernon Square was signed by the D.C. Mayor, the D.C. City Council, the D.C. State Historic Preservation Officer, NCPC, and WCCA.
- The Mount Vernon Square site, building footprints, and preliminary design were approved by NCPC.

Before NCPC issued its approvals for building the convention center at Mount Vernon Square, it heard public testimony on the issue.<sup>44</sup> At that time, some community members requested that the District reconsider Northeast No. 1 as a possible site for the new convention center. WCCA then performed an additional study of the Northeast site, including a cost comparison. WCCA concluded that building the convention center at the Northeast site would increase the cost much higher above the cost of building it at Mount Vernon Square and would delay the project substantially.

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<sup>42</sup>This study, Financial Feasibility Study of a New Convention Center in the District of Columbia, was funded by the Hotel Association of Washington, D.C., the Washington, D.C., Convention and Visitors Association, and the District of Columbia Government. Mount Vernon Square was determined to be the best site for the new convention center.

<sup>43</sup>This EIS was required under the National Environmental Policy Act.

<sup>44</sup>NCPC held a Special Commission Meeting, Open Session No. II, on September 22, 1997.

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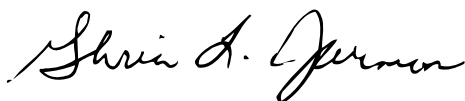
## Agency Comments

In commenting on this report, the Chief Financial Officer, the General Counsel, and the Managing Director of Development of WCCA as well as the District of Columbia Government's Chief Economist generally agreed with our presentation of their progress and the data presented concerning construction and financing for the proposed convention center.

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We are sending copies of this report to the Ranking Minority Member of your Subcommittee and to the Chairmen and Ranking Minority Members of the Senate and House Committees on Appropriations and their subcommittees on the District of Columbia and the Subcommittee on Oversight of Government Management, Restructuring and the District of Columbia, Senate Committee on Governmental Affairs. Copies will be made available to others upon request. Major contributors to this report are listed in appendix I. If you or your staff need further information, please contact me at (202) 512-4476.

Sincerely yours,



Gloria L. Jarmon  
Director, Health, Education, and Human  
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